

This record is a partial extract of the original cable. The full text of the original cable is not available.

UNCLAS SECTION 01 OF 03 BAGHDAD 003450

SIPDIS

SENSITIVE BUT UNCLASSIFIED

STATE PASS USAID; DEPT FOR DRL/IL; LABOR FOR ILAB

E.O. 12958: N/A

TAGS: [ELAB](#) [ECON](#) [EAGR](#) [EFIN](#) [IZ](#)

SUBJECT: CURRENT STATE OF IRAQ'S LABOR MARKET

This cable is sensitive but unclassified. For government use only. Not for internet distribution.

1. (SBU) SUMMARY: Iraq's labor market is in transition as the economy shifts from a centrally planned to a market-based economy. A (the) Fifty percent of Iraq's population is below the age of 18: this has important implications for the ability of the economy to provide jobs for such a large number of current and future labor force participants. The Iraqi Statistical Office (COSIT) estimates unemployment (including discouraged workers), at 28 percent in October 2003 and 27 percent in July 2004 (no figures for 2005 available). Iraqis are well educated by Middle East standards and some have experience in state-of-the-art machinery and production techniques during economic sanctions. Some Iraqis are frustrated that higher than expected oil revenues have not trickled down to them in the form of more jobs and higher wages. The Iraqi Government does not have a job and vocational training program that is able to link job seekers and employers, especially in finding private sector work. Wages and working conditions are much better in the government sector compared to most private sector jobs, especially for female workers. Iraqi job seekers have a clear preference for government work, and as a result, the gap between public and private sector employment has increased since the fall of Saddam.

END SUMMARY.

2. (SBU) At the center of Iraq's labor market today is the transformation that is taking place, albeit gradually and irregularly, from a highly-centralized, state-planned economy with dominant state-owned enterprises and a highly regulated production and distribution chain to a market-based economy with an emerging role played by private sector decision making. Roles and responsibilities have shifted dramatically with little preparation or training for both private sector workers and government bureaucrats. With few rules in place and little experience, Government ministries, such as Agriculture, Trade, Industry and Minerals, with extensive ties to the economy, have been generally reluctant or even opposed to yielding their statist hold over the economy. Large business families that relied on former regime contracts are wondering how they will continue to dominate their respective economic sectors. Many small businesses are eager to join the new market-based economy but are fearful about its prospects for success and have benefited little economically so far.

3. (SBU) A lot about the Iraqi labor market is not well understood, even by Iraqis: private sector employment is measured imprecisely; most communication between workers and employers is disorganized and informal; private sector businesses fear releasing information that could result in greater government scrutiny and regulation; and, government ministries worry about new powers that are gradually being transferred to private sector workers and employers. Organized labor remains fragmented and its legal status, particularly in the public sector, remains problematic.

4. (SBU) In broad terms, Iraq's labor force is probably between 6.5 and 7 million, including 15 to 18 percent women. Determining the labor force is problematic because there is no census to establish a population base and many unpaid family workers in agriculture are not included in the work force. Working Iraqis are divided into several groups: a large, bloated public sector estimated to be at least 1 million; an agricultural sector with at least 1 million workers and an unknown number of unpaid family members; about 500,000 employees in 70 to 100 state-run enterprises that are mostly shut-down or operating minimally; and, up to 100,000 small private businesses with many thousands of employees or self-employed workers.

5. (SBU) Iraq also faces a large demographic youth bulge: nearly 40 percent of the population is less than 14 years old and 60 percent is below the age of 21 -- a statistic that makes Iraq's population growth rate nearly twice as fast as that of Iran. As a result, Iraq's economy will be

challenged to produce an increasingly larger number of jobs in the future.

16. (SBU) Government ministries and agencies are highly centralized and senior managers or even ministers make even the most basic decisions about every day government work. Government and ministry managers prefer to pass decisions to higher authorities, resulting in a backlog of decisions and lengthy delays. Senior ministry officials tend to be in the 50 to 60 plus age group and are reluctant to transfer authority to less senior staff. There is also no established training path for younger managers to move into senior level positions.

17. (SBU) Unemployment estimates vary but the most recent government data put the rate at between 25 and 30 percent, including those looking for a job and persons who have given up their job search. We note that there is a widespread tendency to inflate or deflate unemployment numbers or to conflate unemployment and underemployment. Estimates have ranged from 10 percent unemployment by strict ILO definitions to 50-60 percent when underemployed and unemployed are counted.

18. (SBU) Unemployment is higher in the 15 to 24 year old age group, which comprises a large segment of total population and also has the least amount of training and job experience. Iraq's unemployment rate has been stable over the past year, suggesting the overall economy has not grown much (we anticipate a 4 percent GDP growth of 2005), despite unexpectedly higher oil revenues. This has contributed to growing frustration among Iraqis who had hoped that the economy would generate more and better paying jobs. Underemployment has been anecdotally estimated to be nearly as high as the rate of unemployment, but the actual rate is extremely difficult to determine due to limited data and differing definitions. A further complication, also based on anecdotal evidence suggests that many semi-skilled and entrepreneurial Iraqi have two or three jobs, many in the informal sector. The fact remains, however, that there probably thousands of former army officers and Ba'athists that have been forced to take jobs at lower positions and salaries than their former occupations under Saddam's regime.

19. (SBU) An estimated 30 percent of Iraq's population is rural and most of these are dependent on farm production for their living. Training in modern agriculture practices is limited to USAID assistance and several large cereal farms. Most farms are small, subsistence-based, and inefficient, and they rely on largely unpaid and untrained family labor. Few small, family farms have access to machinery to work the land. Resulting farm incomes are low and there is concern that the growing gap between rural and urban living standards is driving more farm workers to urban cities where employment opportunities are uncertain. Nonetheless, there is an emerging body of opinion here that argues that the agricultural sector is an area where significant job growth is possible in the medium/long term.

10. (SBU) Some workers in state-run enterprises are highly skilled and trained to operate state-of-the-art machinery. A large number of these workers were employed in military-industrial factories and suspected dual-use facilities under the former regime. Thousands of small businesses have fewer than 5 or 10 workers who have minimal skills and are paid low wages. Metal fabrication, building construction, and auto repair are common occupations for small business workers.

11. (SBU) The Iraqi workforce is well educated, according to Middle East standards. In the last 25 years, Iraq developed a large and sophisticated educational system, open up to men and women equally. Nearly half of the work force has a secondary education or better. But there is an education disparity between the rural and urban work force -- nearly half the work force in agriculture has no formal education compared to 60 percent of the urban work force that has at least completed high school.

12. (SBU) Despite the lack of good data, the demand for private sector skilled and semi-skilled workers appears surprisingly strong, but low wages -- relative to those in the government sector -- and poor working conditions are not attracting large numbers of workers to the private sector. Additionally, poor communication links -- including limited advertising, newsletters, hiring halls, and worker fairs -- has meant the Iraqi private sector has been slow to respond to growing business opportunities.

13. (SBU) Aside from labor force and employment data, a robust informal economy is thriving in Iraq. A study conducted in early 2005 estimated Iraq's informal economy

contributed at least 35 percent to actual GDP. Instances of informal work are common: it is well known that many government workers have unreported second jobs because the government work day ends in the early afternoon, leaving time to manage a small business or to leverage close family relatives for after hours work. Secondly, the war sprouted an underground economy that helps provide goods and services not available in the formal economy, or available but only at higher prices. Lastly, the informal sector provides a place where financing the insurgency is easy and shielded from government view.

14. (SBU) Iraqis have a strong preference for government employment, and opinion polls consistently show that government jobs are more sought after by job seekers than private sector jobs. Some unofficial polling at Ministry of Labor and Social Affairs (MOLSA) job centers show that a large number of job seekers are currently employed in the private sector but want to transfer to the government. Some job seekers at MOLSA have even indicated they do not consider their working in the private sector to be an actual job, due perhaps to low wages and poor working conditions.

15. (SBU) Recent polling this year shows that government workers are generally paid 40 to 60 percent more than private sector workers. The Coalition Provisional Authority (CPA) and later the Interim Iraqi Government (IIG) raised government salaries several times in order to get added income quickly into the spending stream to stimulate the economy. For instance, government doctors and teachers, who were making only \$5 a month before Operation Iraqi Freedom, saw their salaries increase to between \$100 and \$250 a month by early 2005. On the other hand, CPA and the IIG did not have control over raising private sector wages. This created increased frustration for private sector workers and further accelerated their drive to acquire government jobs.

16. (SBU) Government employment is particularly attractive to Iraqi females who occupy about 30 percent of all government jobs compared to only about 5 percent in the private sector. Job security and the short workday -- usually over before school lets out -- is an especially important feature to female government workers. They also frequently occupy mid-management and technical jobs that pay comparatively well. The few women in the private sector generally receive below average wages. Mostly, female private sector workers hold down clerical or low-skill bookkeeping jobs.

17. (SBU) The Ministry of Labor and Social Affairs (MOLSA) is the primary ministry responsible for job and vocational training. The ministry is relatively small and the Iraqi Government generally views this ministry as a second-rate with minimally qualified employees and its work of this ministry as low priority. and a second-rate ministry with minimally qualified employees. Many MOLSA resources are dedicated to as orphans and widows payments, and helping pension funds disbursement. Public job training programs have not had an important place in Iraq's government, both during the former regime and during Iraq's two recent governments. Some of the reasons behind the government's low priority for job and vocational training include: firstly, the Government's view that the private sector should take the lead in providing training for private sector jobs; secondly, government employment is still viewed as an Iraqi entitlement and expected occupation of many citizens; thirdly, retraining or "reinventing" occupations are still a new phenomenon in Iraq; and, finally, social stigma against citizens asking the government for help finding a job still lingers.

18. (SBU) Comment: Much of the discourse on the Iraqi labor market rightly focuses on unemployment. Yet at the same time, we note that many public sector jobs especially those in uncompetitive state-owned enterprises, will become increasingly vulnerable as Iraq opens itself more to international markets to compete for private-sector driven growth and jobs in a market-based economy.

Satterfield/Khalilzad